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RUEHIT/AMCONSUL ISTANBUL PRIORITY 2401
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RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHVEN/USMISSION USOSCE PRIORITY 2776
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SUBJECT: TURKMENISTAN: BUSINESS REFORMS SUGGEST CONTINUING
PROGRESS (WITH A FEW LAGGING SECTORS)

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY. Turkmenistan's efforts to rewrite laws affecting foreign businessmen are beginning to take hold, according to four U.S. businessmen active in Turkmenistan. All agreed that the scale of recent reforms suggests a long-term government vision, but added that many officials' hesitation to take responsibility for acting on these reforms remains problematic. Although the business environment is improving, court arbitration remains corrupt and exploitative. Reforms in the tax code have removed a tremendous paperwork burden, but the tax system suffers from a lack of digitalization. The banking sector remains stubbornly resistant to reform. Despite this, all businessmen acknowledged that their revenues are increasing, and most are optimistic about further change. END SUMMARY.

BUSINESS CLIMATE WARMING UP ...

¶3. (SBU) Over the last year, Turkmenistan has made strides in rewriting laws and regulations to improve its business operating environment. To see whether this new legislation is making a difference, Emboff met with representatives of four U.S. companies active in Turkmenistan -- Bertling, Cameron, Deloitte and Weatherford -- to solicit their views. All these companies are service companies for the hydrocarbon sector. All previously have also been outspoken in their criticisms of Turkmenistan's investment climate.

¶4. (SBU) The representatives all said that their revenues are increasing. They concurred that the climate is improving, although slowly. Specifically, they cited as an improvement the fact that companies can now more easily obtain letters of credit for large deals, whereas before they were forced to receive partial payments with large time delays. Several stated that business generally proceeds smoothly after tenders are awarded. However, they also noted that tenders can only be awarded to another company through the Ministry of Oil & Gas, which frequently overturns decisions in favor of well-known companies, like Schlumberger and Weatherford.

... WHILE BUSINESS ARBITRATION REMAINS FROSTY

15. (SBU) Offshore firms (mostly Russian and Chinese companies) are forced to use Turkmen arbitration courts, which are corrupt, lack knowledge of international standards and can only conduct court cases in Turkmen and Russian. The result: the courts rule in favor of Turkmen interests 90% of the time. Western firms who wish to preserve good legal status by only using neutral arbitration parties such as the Stockholm Chamber of Commerce are periodically forced to decline buyers.

TAX CODE: "EVERYTHING IS IN PROCESS" ...

16. (SBU) The tax environment is visibly improving. The representative from Deloitte remarked, "Every month brings with it a new legislative reform) everything is in process." Where there previously were many types of each tax (for example, several species of Value-Added Tax, each one requiring a separate set of instructions), the simplified, unified and comprehensive tax code recently implemented makes it easier for companies to work and allows fewer loopholes to be exploited. The reforms remove much of the tremendous paperwork burden. Tax officials are becoming more savvy and friendly to the needs of international financial organizations and foreign investment. Practical training tours are now conducted in the regions and officials are more willing to use tax audits. However, they added, there continues to be no unified system for taxing individuals.

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... BUT LAGGING BEHIND ITS NEIGHBORS

17. (SBU) Turkmenistan has a long way to go in modernizing its tax system when compared to its neighbors. The State Tax Administration largely does not keep electronic files, nor does it make use of electronic databases such as Westlaw or Lexus. One positive sign of reform is a tax amnesty awarded recently, an act without precedent in this country. Furthermore, the Bertling representative said he expects several laws requiring mandatory fees to be eliminated later this year.

BANKING SECTOR REMAINS LARGELY IMMUNE TO REFORM

18. (SBU) Getting credit is still the biggest problem. Additionally, companies continue to periodically be denied licenses for bank transfers, despite agreements reached on both sides of a deal. There is the possibility of a private bank opening. Nevertheless, many are skeptical as to when this will happen. Until then, citizens continue to distrust the banking system and hide dollars, and increasingly euros, under the mattress.

MINISTERS STILL CONFUSED ABOUT REFORM PROCESS

19. (SBU) Many international companies seem to be waiting for the new laws to be fully implemented. A Weatherford representative described as "frustrating" government ministers' confusion as to where they want to take reform. Additionally, ministers are dismissed or replaced after a company has built up a relationship with them, forcing everyone to start from scratch in this relationship-driven business environment. Many officials still do not understand the new laws, although several companies believe this is changing. As the Cameron representative remarked, it is a sign of progress that "the roadblocks are slowly being addressed."

110. (SBU) COMMENT. The scale of recent reforms suggests that the government does have a long-term vision of the economy, but remains unsure of how to reach Point B from Point A. Officials' hesitation to accept responsibility for acting on reforms presents a significant roadblock. If the president

is serious about promoting reform, the government will need to continue to push these reforms unambiguously, dismissing officials who refuse to comply. Additionally, to really set the foundations for a good business climate, Turkmenistan will need to relax travel restrictions and improve the business climate -- an issue that these businessmen, all of whom are registered, did not raise, but which other businessmen have cited as one of the top problems in getting established. END COMMENT.
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